



# INTELLIGENCE INFORMATION REPORT

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COUNTRY: USSR (UR)/NORWAY (NO)/JAPAN (JA)

REPORT NO: 2 722 0088 82

TITLE: Soviets Violate SODECO Contract (U)

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SOURCE: (C/NOFORN) 22220787: Source is a Japanese businessman who has access to such information through his daily routine activity.

SUMMARY: (S/NOFORN) Report provides information on SODECO contract violation by UR. The UR side of SODECO acquired five vessels instead of two as was agreed by JA and UR sides of SODECO for the 1981-1982 operation on the Sakhalin Continental Shelf.

DETAILS: (U)

1. (S/NOFORN) In Addendum No. 5 to the basic contract on "Cooperation in Carrying Out Petroleum and/or Natural Gas Exploration, Development, and Production on the Sakhalin Continental Shelf and Supplying the Resultant Products to JA," both parties (UR/JA) to the basic contract considered seven items of the Memorandum dated 24 Jan 81. Both parties signed the memorandum and agreed to the following points:

a. To assure the operation of the Jack-up Rig "OKHA" on the Sakhalin Continental Shelf during the 1981-1982 season, the UR will be provided with two supply boats, which UR will assume responsibility for the acquisition thereof. The purpose of the two supply boats is to meet the operational requirements (including tugging) of the "OKHA."

b. In order to carry out the aforementioned responsibility, the UR will purchase two supply boats at its own expense, instead of renting them through SODECO-1. The SODECO will furnish 4.08 million US dollars in credit to partially compensate the UR for the cost of purchasing the supply boats. The aforementioned funds from SODECO-1 will be remitted directly to the UR within ten days after the UR completes procedures prescribed by SODECO-1 (Credit Contract).

ARMY Reviews Completed

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c. The supply boats are to be owned by the UR. Insurance on the supply boats will be at the discretion of the UR and will be based on usual UR vessel insurance practices.

d. All items not covered in this Addendum will conform to the various articles in the basic SODECO contract dated 28 Jan 75.

e. Both sides agreed that an Addendum to the Credit Contract (SODECO-1) dated 21 Oct 75 will be drawn up by SODECO and the UR Foreign Trade Bank within ten days of the signing of this Addendum No. 5.

f. This addendum becomes an integral part of the Basic Contract and becomes effective from the day of its signing. The aforementioned Addendum is a true and correct text extracted from the original which was written in Russian and Japanese in Tokyo and signed on 27 Jun 81 by the following individuals:

Representing SODECO: IMAZATO, Hiroki  
KOBAYASHI, Sadao

Representing the UR Ministry of Trade: Mr. V. SUSHKOV

2. (C/NOFORN) The Application for Approval of Contract (see page 4) was submitted and item 4 describes the amount of 81,000,000 Norwegian Krone as the total cost of the contract (approximately US \$15,667,311 at 5.17 - US \$1.00 as of Mar 80). Item number 6 reflects the amount applied for financing was US \$4,080,000 in accordance of the Addendum of 14 Jul 81 to Loan Agreement SODECO-1.

3. (S/NOFORN) The initial talks and agreements called for the acquisition of two (2) supply/tug boats; however, unknown to the JA side of SODECO at the time and later surfaced, was the fact, the V/O SUDIOIMPORT had placed an order for five (5) vessels with ULSTEIN HATLO A/S of NORWAY, instead of two (2) which had been agreed. Also, since the vessels were to be equipped with the latest communication equipment, automatic directional finders and depth sonars it came under suspicion of the JA management side of SODECO. Also the staggering amount of US \$15,667,311 drew attention of major stock-holders.

4. (S/NOFORN) The JA management side of SODECO demanded an invoice for the above mentioned equipment, but the UR side refused to submit an invoice for record. The JA side then contacted the UR Embassy but the Embassy said that it does not get involved in such affairs. As a last report, the JA side tasked an unidentified person in NORWAY to look into the matter, and there it became known that the UR had taken advantage of the situation to acquire three (3) additional vessels, which were reportedly delivered to the UR directly and not intended for SODECO use. Also surfaced at that time was that the V/O Sudioimport had used the initial US \$4,080,000 as a down payment for five vessels, and is presently making payments by installments.

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5. (S/NOFORN) This Soviet doing has upset the JA side of SODECO, and there is a fear that MITI will learn of the violation and the misuse of SODECO contract. There is also the fear that Prime Minister Suzuki would take a dim view of the matter and consent to US President Reagan's request for technology sanctions against the UR. If this matter leaks outside of SODECO, future trade activities between JA and UR could be jeopardized.

6. (S/NOFORN) The management of SODECO had decided to close its activity for the year and mentioned in its annual report, which is submitted to MITI (Japanese Ministry of International Trade and Industries), that only two vessels were purchased for the SODECO Project, even though there is no invoice to verify the purchase. At this point, the JA side of SODECO is excluding the true facts from its annual report. The JA side of SODECO is anticipating that the UR side would make complete payments on the vessels as soon as possible and without any problems that may threaten the SODECO Project.

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